

30 November 2023



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Dear Ms Savage

Ausgrid's 2024-29 Revised Proposal and Tariff Structure Statement

Ausgrid is pleased to submit our 2024-29 Revised Proposal and Tariff Structure Statement (**Revised Submission**) to the Australian Energy Regulator (**AER**).

Our Revised Submission has been shaped by the AER's Better Resets Handbook and Early Signal Pathway initiative, aims to meet customer expectations and AER requirements, and ultimately be capable of AER approval. With your approval we will spend less than current period levels and minimise cost to consumers, while delivering a more dynamic network with enhanced resilience to climate and cyber threats. We are continuing to offer a range of network tariffs that support the efficient charging of electric vehicles, and we have also designed a new trial tariff that will facilitate technologies such as community batteries.

Our efforts have been supported by the in-depth and constructive engagement with the Reset Customer Panel, our customers and AER staff over several months, in addition to the feedback you provided when we met on 9 October. We have listened carefully to this feedback and acted upon it. Our Revised Submission provides more detailed analysis on our expenditure proposals, and presents an overall expenditure forecast that we consider is measured and cognisant of the cost of living challenge facing the communities we serve.

Attachment A includes an extract from our Revised Proposal outlining how we have responded to the Draft Decision and customer feedback, and delivered what we consider to be a proposal that is capable of approval.

In the weeks ahead I propose that our teams build on our recent engagement by embarking on what might be considered a 'later signal pathway' in the period to April 2024. This reflects the principles of engagement, guidance, transparency and collaboration that have made the early signals pathway model so successful and will ensure you have access to any information or background you need, when you need it to support your considerations. I have suggested a draft approach in **Attachment B**, which assumes that your staff would need to prepare final recommendations on our Submission by March 2024. I would value any feedback you have on this approach, as well as our Revised Submission, when we meet on 14 December.

Please feel free to contact me directly if you would like to discuss.





Regards,

A handwritten signature in black ink, appearing to read "Marc England", written in a cursive style.




Marc England
CEO

Attachment A






Ensuring we are meeting the AER's Better Resets Handbook:

-  Our overall period-on-period total expenditure (**totex**) is lower, with category-level increases focussed in areas that have strong customer support.¹
-  Our replacement expenditure (**repex**) forecast, making up 43% of our total capex, is 36% below the AER's Repex Model efficiency threshold.²
-  Our base opex costs are reflective of the costs of an efficient business. As at FY22, we are ranked third in operating expenditure efficiency in the National Electricity Market (**NEM**), driven by a 40% reduction in our operating costs since 2015.
-  On a like for like basis, our revised opex forecast is \$57 million lower than our Initial Proposal, and our revised step changes reflect genuine cost increases from the macroeconomic environment (growth in insurance costs and increased cyber security threats), more detailed supplier quotes on our smart meter data and climate resilience step changes and categories with strong customer support (climate resilience and innovation investments).

Responding to customers macroeconomic cost of living concerns:

-  In response to the VoC Panel, we have revisited project timing and reduced and/or delayed some expenditure to smooth the cost of these investments over multiple regulatory periods, while still delivering the benefits of the investments; this has resulted in us reducing proposed capex by \$98 million.
-  Our Revised Proposal will reduce our capex to 2% below our current period spend. Even with lower period-to-period investment we will deliver future focussed investments, such as climate resilience, Enterprise Resource Planning (**ERP**) replacement, cyber security and CER augmentation.
-  We are proposing that software as a service (**SaaS**) implementation costs continue to be treated as capex rather than following the accounting treatment to be opex, which means the costs are recovered over 5-15 years rather than immediately. This would benefit customers at a time when cost of living is significantly affecting customers.³

Responding to the AER's Draft Decision and staff feedback:

-  We have removed a 20% contingency from our proposed ERP program and deferred spend to manage delivery, resulting in a \$31 million reduction in capex.
-  We have reduced our cyber security program by \$21 million but remain committed to achieving the highest level of protection, security profile 3 (**SP-3**), through efficiency savings. At the Draft Decision stage, the AER was advised by its technical consultant, EMCa, that Ausgrid should invest in a lower level of cyber protection. We maintain that the criticality of our network requires the highest level of cyber protection.
-  We have proposed that a new \$128 million substation at Macquarie Park be treated as a contingent project for the 2024-29 period. The new substation would serve multiple customers with large load requirements that have approached Ausgrid for connection services. As we have not yet received a formal connection application for the required works, the construction of the new substation is proposed as a contingent project.
-  We heard from the AER in its Draft Decision that we should consider a wider range of options to efficiently and prudently respond to the growing impact of storms on our network. This feedback, along with increasing customer concerns about affordability, has led us to reduce our climate resilience program by 41% to \$114 million relative to our Initial Proposal. These savings will be made by spreading out our planned resilience investments over 4 regulatory periods.
-  In response to AER feedback, we are proposing to share the risk and uncertainty that comes with innovation projects, sharing the costs of these investments with our customers similar to an innovation scheme administered by UK's Ofgem.

¹ Our period on period capex is 2% lower in 2024-29 factoring in FY23 actuals (\$836 million) and year-to-date delivery that puts Ausgrid on track to meet our estimate of \$790 million in FY24. We use totex to avoid the impact of how software-as-a-Service (**SaaS**) costs are treated from one regulatory period to the next.

² AER (2023) [Issues Paper: Ausgrid Electricity Distribution Determination](#), 1 July 2024 to 30 June 2029, p. 15.

³ Taking a two-period view, our proposal would result in a SaaS implementation costs causing a material increase in 2024-29 period revenue, followed by another material increase in 2029-34 period revenue. However, applying the change from 1 July 2024 (per our Initial Proposal and the Draft Decision), would result in a much greater increase in 2024-29 revenue, followed by a material reduction in revenue in the 2029-34 period. Given our customers have indicated significant concerns about affordability at this time, and the revenue volatility (other things equal) arising from applying the change from 1 July 2024 versus 1 July 2029, on balance we consider our proposed approach is in customers' long-term interests. Detail is outlined in **Attachment 6.1 – Proposed operating expenditure**.

Attachment B

We look forward to meeting with you and the AER Board on 14 December to discuss the Revised Submission and receive your early views. Below I propose an engagement program to facilitate the AER providing us with guidance on our Revised Submission, and ensure a “no surprises” final determination. The timings are indicative only and for discussion.

Milestone	Timing
Executive Check in (Kris Funston & Alex McPherson)	11 December 2023
AER initial feedback on our Revised Submission	14 December 2023
<i>Stakeholder submissions due</i>	<i>19 January 2024</i>
Executive Check in (Kris Funston & Alex McPherson)	w/c 15 January 2024
RCP present report to AER Board or Networks Committee	w/c 22 January 2024
Workshop: AER/Ausgrid revised expenditure proposal	w/c 22 January 2024
Executive Check in (Kris Funston & Alex McPherson)	w/c 5 February 2024
Ausgrid meets with AER Board to discuss any areas of concern	w/c 12 February 2024
Executive Check in (Kris Funston & Alex McPherson)	w/c 19 February 2024
Staff level meetings on any outstanding areas of concern	By March 2024